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FISCAL IMPACT STATEMENT

LS 6710 | **NOTE PREPARED:** Jan 10, 2006
BILL NUMBER: HB 1356 | **BILL AMENDED:**

SUBJECT: Deferral of Property Tax Payments.

FIRST AUTHOR: Rep. Woodruff | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** State and Local

Summary of Legislation: This bill allows the deferral of property taxes imposed on a homestead that is the principal place of residence of an individual who is at least 65 years of age, blind, or disabled (or, subject to certain conditions, who is the surviving spouse of such an individual). It provides for the deferral of any part of the property taxes that exceeds a minimum required payment (base amount).

The bill provides for a state distribution to taxing units to replace the property taxes deferred, and provides for repayment to the state when deferred property taxes are collected. It makes an appropriation and makes other related changes.

Effective Date: Upon passage.

Explanation of State Expenditures: The bill would allow a homeowner who is at least 65 years of age, blind, or disabled (or, subject to certain conditions, who is the surviving spouse of such an individual) to defer part of their property tax increase each year, subject to limitations.

Overall, at least initially, state expenses would increase under this bill. If deferral repayments are ever greater than deferrals in a future year, then revenues would exceed expenditures in those years. Deferrals could be *as much as* $61 M in CY 2006 and $74 M in CY 2007. However, the actual amount deferred could be somewhat less than these estimates.

The bill would set a base tax amount for all qualified homeowners and would allow deferrals for taxes due in the current year that exceed the base tax amount. If a currently qualified taxpayer would have met the qualification requirements on March 1, 2001, then the base tax amount in a year would equal a combination of (1) 125% of the 2002 net tax amount plus (2) for each year after 2003, 10% of any tax increase from the previous year. If the taxpayer would not have met the qualification requirements on March 1, 2001, then the base year would equal the tax in the year in which the taxpayer first qualifies plus 10% of any tax increase in following years.

The state would pay counties the amount of property taxes deferred during each year. The bill makes an appropriation from the General Fund of the amount necessary to make the distribution. Taxpayers would repay the amount deferred with interest to the county when the property is sold or the value of the deferral exceeds the value of the property. Interest starts accruing five years after that year's deferral and accrues interest at the rate set for delinquent taxes. Repayments would be transferred from the county to the State.

When the property is sold the state would recover the amount the state had paid in deferrals plus interest after 5 years. The short-term impact could be significant when significant increases in property taxes occur. The long-term impact would be the loss of interest on the money given for the first five years of deferral and if the state could earn a higher interest rate than the interest on delinquent property.

The bill's fiscal impact would depend on the number of property taxes for homeowners who are 65 or older, blind, or disabled and had more than a 25% increase in property taxes in CY 2003 or 10% in a year after CY 2003.

Methodology: The total amount of taxes that could be deferred in a year was estimated by examining the 2002 and 2003 parcel-level property tax records for individuals who claimed the elderly, blind, or disabled property tax deductions. Estimates of future taxes were made using countywide and statewide estimates of tax rate changes and net tax shifts due to the implementation of annual adjustments. The taxpayers who are able to claim the elderly, blind, or disabled property tax deductions are a subset of the total taxpayer group who would be eligible to defer taxes. This is because there are income and assessed value limits that prohibit many elderly, blind, or disabled taxpayers from claiming the property tax deduction.

The results of the analysis on the property tax records were applied to the estimated net property tax paid by the total taxpayer group that was calculated from the income tax data. *Because of the difference between the taxpayer groups and because not every eligible taxpayer would ask for deferral, the actual deferrals would most likely be lower than the above estimates.*

Background: According to income tax return data for tax year 2002, approximately 308,000 taxpayers took an elderly or blind income tax deduction. These taxpayers took an income tax deduction for property taxes paid on homesteads in the amount of $300 M.

According to income tax return data for tax year 2003, approximately 305,500 homeowners took an elderly or blind income tax deduction. Based on these taxpayers' reported income tax deductions for property taxes paid on homesteads and Lake County homeowner income tax credits, the total property tax paid by elderly, blind, or disabled homeowners in 2003 is estimated at $306 M.

From that data, total property taxes were estimated for this group of taxpayers in the amount of $325 M in CY 2004, $340 M in CY 2005, $348 M in CY 2006, and $387 M in CY 2007.

Explanation of State Revenues:

Explanation of Local Expenditures: The bill could increase the county property tax administrative costs. The county would have to keep track of the deferrals on each piece of property. It is unknown what the cost of tracking the deferrals might be.

Explanation of Local Revenues: The bill should have no fiscal impact on local units' revenue.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Counties.

Information Sources: Parcel-level property tax data; OFMA income tax databases.

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